

**House of Representatives
Local Government and Urban Policy Committee
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Organization and Finance Issues Facing Michigan Local Governments

General purpose and special purpose governments in Michigan are facing unique challenges. Some of the issues have resulted from a compounding effect of marginal and non-marginal changes to state law while other issues have their roots in the volatile economy of the state. The interdependency between state and local government cannot be ignored. Changes in the state's fiscal condition directly impact the financial condition of local governments. The disparate growth in tax base of the state further widens the gap between the local units "haves" and "have nots" and between the older central cities and the growing suburban communities. Local governments for the most part have wrung out most of the economic efficiencies in their governmental operations. Once individual local government efficiencies in the delivery of service are achieved, reorganizing local production and delivery services through contracting, joint production arrangements and consolidation offer some potential for gaining additional efficiencies. Further reduction or changes in funding flows will result in difficult choices for local officials not unlike choices facing the legislature. Following are issues that the Local Government and Urban Policy Committee may wish to include on their agenda. Some issues have rather straightforward policy solutions while other represent long term challenges. Committee member no doubt have heard or been exposed to variations of these themes since the legislative term began in January from the county, municipal and township associations.

1. Headlee/Proposal A Interaction and Resulting Impacts¹

- a. Growing gap between Taxable Value and SEV (see attachment)
- b. Headlee Rollback and erosion of taxing capacity
- c. Counting recaptured taxable value against Headlee rollback versus new value
- d. Built out communities, especially central cities, are destined to have restraints on revenue generating ability due to recapture provision.²
- e. New home buyers or individual changing housing bear a disproportionately higher tax price for services thus the property tax differential between new entrants to a neighborhood versus long term homeowners is growing. One could expect a political backlash once these differentials are transparent to homeowners. Equity in tax distribution is the central issue in the taxable value uncapping problem.

Proposed Action: Amend the General Property Tax Act to designate recaptured taxable value (uncapped value) to be treated as new development and exempt from Headlee Rollback

¹ For further discussion see "The Growing Difference between State Equalized Value and Taxable Value in Michigan" CRC Report No. 1058, March 2001. <http://www.crcmich.org/PUBLICAT/2000s/2001/memo1058.pdf>

² For more detailed analysis see "System Failure: Michigan's Broken Municipal Finance Model" Frank W. Audia and Denise A. Buckley, Plante & Moran, prepared for Michigan Municipal League, 2004.

2. **Enhanced revenue generating options for local units**
 - a. Local option sales tax
 - b. Countywide income tax (presently 22 cities have exercised city income tax option)
 - c. Local government revenue task force no doubt will offer suggestions in the future

3. **Tax Base Sharing for Local Governments**

- a. Michigan's current policy of "winner take all" related to location of new community investments (housing, commercial and industrial development) contributes to stressed intergovernmental relationships, annexation fights and patterns of development location decisions that may not be in the collective interest of communities.
- b. The "Conditional Land Transfer Program" (PA 425, 1984) is a form of tax base sharing but in the long run due to legal interpretation will create jurisdictional boundary issues over the next three decades. Amendments to the law are needed to head off these impending issues (see item 4).

Proposed Action: Explore the potential for creating a win-win situation for intra-jurisdictional competition for economic development location such as the Minneapolis-St. Paul program of "tax base sharing on a regional basis model."

4. **Conditional Land Transfer Program – PA 425³**

- a. Often referred to as the "alternative to annexation" the Conditional Land Transfer Program has gained wide-popularity throughout the state and was viewed as a policy approach to create a win-win situation between cities and townships over land disputes over capturing the rents related to economic development. However, several issues have emerged that need to be resolved by the legislature.
 - i. Review Process – currently a city and township agree to the terms of a PA 425 agreement, once the agreement is adopted by the respective municipal bodies, the agreement is sent to the Secretary of State's Office of the Great Seal for recording. The agreements lack review by planning bodies or other oversight policymaking boards to insure consistency with planning goals and objectives for the local units involved.
 - ii. A Length of Agreement – the statute permit 425 agreements to be up to 50 years in length. Fifty years is an extremely long period of time for economic adjustment to occur. The agreements will transcend numerous terms of office of township board and city council members. A mandatory five year review would be useful in bringing sunshine on the agreement such that elected representatives are familiar with the agreements in place.
 - iii. Reversion conditions at end of the agreement – the statute permits the land included in the conditional transfer to either become permanently attached to the city at the end of the agreements. The city of Three Rivers

³ For further discussion see "The Conditional Land Act: Research, Reflections and Recommendations" by Gary Taylor, Lynn Harvey and Will Shields, MSU Ag Economics, December 2003. Complete report can be found at <http://www.aec.msu.edu/agecon/government/index.htm>

has 19 separate 425 agreements with two townships with differing terms and conditions such as revenue sharing terms and reversion conditions at the end of the agreements. Of the 268 425 agreements on file at Office of Great Seal, 32 percent state that the land in question reverts to the township at the end of the agreement. This has the potential to create significant policy issues over the ownership of infrastructure investments developed over the 50 years to support economic development. Nine of the agreements are silent as to how the land in question is disposed of at the termination of the agreement.

- iv. Contiguity of Land Conditionally Transferred – With annexation, land subject to annexation must be contiguous to the city proposing annexation. The PA 425 Program is silent on the issue of contiguity which has lead to the emergence of 425 agreements involving substantial amounts of land not contiguous to the city. A good example exists in Lansing with the City of Lansing and Alaiedon Township agreement where the economic development site is seven miles from Lansing yet workers at the insurance company pay Lansing city income tax. If the dual purpose of the PA 425 statute is the promotion of economic development and a “win-win” approach to annexation, the current interpretation and use of the policy tool violates the spirit of the act.

Proposed Action: Amend the Conditional Land Transfer statute in the following manner:

- a. Require coordinated planning and review of proposed agreements
- b. Shorten the contract period to 10-15 years and require a mandatory review of the agreement every five years to maintain familiarity with the agreement. [Note research in the 1990s revealed that ten years after the first agreements were filed, 33 percent of the units involved expressed no knowledge of such agreements]
- c. Eliminate reversion option. Once land transferred and the transferring unit receives compensation over a number of years, at contract expiration, the land should remain with the city.
- d. Require contiguity.

5. Revising the State Revenue Sharing Program

Since the state revenue sharing program will sunset in FY 2007, the legislature will be required to revisit the distribution of the statutory portion of the SRS fund. The statutory formula based distribution is redistributive in design and from a policy perspective achieves the goal of recognizing fixed investments and associated costs incurred by older communities who are either built-out or losing population to suburban communities. The constitutional distribution of SRS on a per capita basis recognizes costs associated with population growth thus as communities experience population growth such as townships the current revenue sharing program accommodates the growth in the distribution of SRS funds. Additionally, the legislature will need to plan for the eventual eligibility of counties that will be eligible for state revenue sharing funds once the county SRS fund expires. The first county

eligible for SRS funds will occur in FY 2009 but counties will be spread out over a 20 year period in terms of re-entry to the SRS program.

The legislature has not only a constitutional and statutory obligation to engage in intergovernmental transfers with sub-state units of government but also has a long standing social contract with local units. Over the years, the legislature has usurped taxing powers from locals in exchange for a variety of revenues sharing strategies and commitments. Since the state has greater taxing flexibility compared to local units, it behooves the legislature to examine carefully the interdependent funding commitments with local governments.

6. Governmental Organization

The recent the three to four year economic downturn with the resulting structural deficit for the state has placed additional financial strain on sub-state units of government. The growing financial gap between the “financially sound” and the “barely making it group” of local units is widening. It is predicted that there will be an increased interest in exploring alternative institutional arrangements for community service delivery. The alternative arrangements will take many forms ranging from political consolidation to specific service consolidation. If the state is interested in promoting both efficiency and effectiveness in community service delivery, then a restructuring of state incentives will need to take place. Given a choice, local units would rather be self-producers and self-providers rather than collaborators in community service delivery. The state is in a position to offer incentives to promote governmental collaboration. These incentives could take the form of “transition payments” to units who merge services, form joint production arrangements or create authorities (special purpose governments). Additionally, units that consolidate services or politically consolidate could be eligible for premium revenue sharing payments for a three to five year period or other type payments to assist the units in their consolidation efforts. Or perhaps the state could create a special service or grant fund that local units moving towards consolidation (political or service) could access to assist with planning and implementation.

Proposed Action –

- a. Create a transition payment to local units who consolidate, establish authorities or form joint working arrangements for community service delivery.
- b. Provide bonus or premium revenue sharing payments to local governments who consolidate governments.
- c. Create a pool of funds which local units exploring consolidation or collaboration efforts can tap to assist with planning and implementation.

State Equalized Value and Taxable Value: 1998 v. 2004

RANK*	COUNTY	1998		2004			Chg. 98-04 SEV (%)
		SEV	Taxable Value	SEV	Taxable Value	TV v. SEV** (%)	
41	ALCONA	531,262,613	463,853,403	918,789,467	618,653,922	67.33	72.94
57	ALGER	221,812,600	183,376,848	365,066,823	249,736,469	68.41	64.58
35	ALLEGAN	2,609,523,769	2,282,362,672	4,591,867,887	3,407,613,586	74.21	75.97
56	ALPENA	638,915,923	588,077,192	1,052,100,279	791,329,437	75.21	64.67
4	ANTRIM	1,085,119,871	923,211,949	2,307,565,989	1,390,866,162	60.27	112.66
40	ARENAC	381,075,637	339,912,988	661,178,355	454,387,440	68.72	73.50
16	BARAGA	145,935,863	120,241,011	270,901,635	176,007,173	64.97	85.63
19	BARRY	1,177,487,723	1,022,009,628	2,157,094,467	1,512,667,876	70.13	83.19
81	BAY	2,234,138,330	2,043,139,053	3,135,673,100	2,651,998,662	84.58	40.35
6	BENZIE	659,406,807	520,672,963	1,325,725,677	805,938,284	60.79	101.05
78	BERRIEN	4,406,440,877	3,949,543,448	6,437,351,331	5,091,433,289	79.09	46.09
42	BRANCH	835,711,790	704,770,375	1,442,901,366	1,060,278,683	73.48	72.66
73	CALHOUN	2,626,927,063	2,352,465,790	3,953,970,561	3,228,412,954	81.65	50.52
53	CASS	1,175,688,999	957,874,482	1,966,505,061	1,365,560,322	69.44	67.26
3	CHARLEVOIX	1,185,288,387	1,022,289,910	2,520,775,610	1,587,021,381	62.96	112.67
7	CHEBOYGAN	881,355,804	729,121,581	1,765,422,988	1,072,942,601	60.78	100.31
62	CHIPPEWA	713,614,118	599,717,580	1,151,229,521	802,649,760	69.72	61.32
17	CLARE	642,480,849	567,597,338	1,182,203,940	816,509,604	69.07	84.01
32	CLINTON	1,372,644,994	1,236,886,504	2,452,374,519	1,921,281,111	78.34	78.66
54	CRAWFORD	404,850,990	363,100,115	675,009,553	488,360,379	72.35	66.73
71	DELTA	803,774,481	699,901,487	1,221,603,080	915,014,217	74.90	51.98
68	DICKINSON	569,262,068	531,929,080	894,033,600	776,882,447	86.90	57.05
50	EATON	2,135,466,662	1,984,609,654	3,595,251,434	2,868,821,143	79.79	68.36
5	EMMET	1,552,896,969	1,371,664,991	3,256,273,660	2,259,869,504	69.40	109.69
72	GENESEE	8,126,676,693	7,414,774,950	12,294,546,948	10,108,083,643	82.22	51.29
34	GLADWIN	601,908,617	517,680,843	1,062,421,001	754,410,220	71.01	76.51
76	GOGEBIC	361,953,708	280,104,772	537,999,224	366,068,807	68.04	48.64
14	GR. TRAVERSE	2,445,648,771	2,117,448,190	4,619,315,062	3,322,297,341	71.92	88.88
75	GRATIOT	681,817,686	571,347,516	1,018,390,419	746,189,977	73.27	49.36
44	HILLSDALE	917,425,519	805,146,573	1,564,583,052	1,129,766,602	72.21	70.54
67	HOUGHTON	469,457,247	392,142,213	737,949,016	533,130,817	72.24	57.19
69	HURON	1,191,525,147	1,023,536,349	1,837,297,924	1,354,384,349	73.72	54.20
63	INGHAM	5,347,282,688	5,026,461,615	8,524,106,937	6,847,863,456	80.34	59.41
45	IONIA	966,974,700	823,542,090	1,647,540,580	1,209,827,651	73.43	70.38
59	IOSCO	751,456,718	684,588,737	1,233,057,826	935,386,326	75.86	64.09
30	IRON	285,081,690	253,668,605	510,134,359	339,554,127	66.56	78.94
21	ISABELLA	921,916,875	819,649,983	1,676,439,111	1,224,690,253	73.05	81.84
36	JACKSON	2,974,600,031	2,477,153,003	5,234,043,884	3,790,558,460	72.42	75.96
77	KALAMAZOO	5,405,457,238	4,964,423,900	8,022,206,352	6,757,516,459	84.24	48.41
39	KALKASKA	511,087,352	455,146,730	889,006,823	614,378,603	69.11	73.94
70	KENT	13,647,702,170	12,781,963,976	20,930,699,290	18,015,373,868	86.07	53.36
1	KEWEENAW	66,968,125	52,822,589	147,724,877	93,967,165	63.61	120.59
8	LAKE	311,124,541	253,278,208	621,816,008	394,664,875	63.47	99.86
20	LAPEER	2,026,584,049	1,744,859,356	3,701,389,668	2,632,809,751	71.13	82.64
2	LEELANAU	1,394,295,873	1,127,784,545	3,009,354,138	1,700,929,546	56.52	115.83
60	LENAAWEE	2,213,090,764	1,912,867,894	3,629,018,589	2,779,704,421	76.60	63.98
9	LIVINGSTON	4,739,245,583	4,227,187,802	9,324,351,589	7,155,611,993	76.74	96.75
15	LUCE	128,878,611	98,665,975	241,975,566	145,403,181	60.09	87.75
25	MACKINAC	616,529,335	511,681,068	1,111,580,621	719,672,113	64.74	80.30
52	MACOMB	20,119,575,310	18,574,537,125	33,721,486,757	26,980,530,368	80.01	67.61
10	MANISTEE	661,268,573	569,575,878	1,292,646,585	838,769,961	64.89	95.48
74	MARQUETTE	1,188,934,121	1,060,081,681	1,777,398,221	1,401,609,300	78.86	49.50
58	MASON	969,855,250	899,654,914	1,594,468,865	1,177,622,745	73.86	64.40
33	MECOSTA	788,835,411	678,711,282	1,393,931,479	1,002,097,921	71.89	76.71
26	MENOMINEE	391,621,114	361,695,350	703,943,538	479,201,617	68.07	79.75
82	MIDLAND	2,827,912,136	2,758,282,943	3,933,460,624	3,416,287,004	86.85	39.09
18	MISSAUKEE	357,129,284	304,492,656	655,391,166	420,784,553	64.20	83.52
80	MONROE	4,546,852,489	4,161,614,522	6,518,266,172	5,334,377,371	81.84	43.36
12	MONTCALM	1,046,651,984	931,737,804	2,002,032,987	1,444,153,586	72.13	91.28
49	MONTMORENCY	364,114,997	317,513,993	616,026,853	400,645,443	65.04	69.18

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		SEV	Taxable Value	SEV	Taxable Value	TV v. SEV** (%)	
51	MUSKEGON	2,876,769,060	2,639,408,331	4,840,137,970	3,795,561,731	78.42	68.25
29	NEWAYGO	910,135,416	773,590,273	1,632,518,044	1,112,018,788	68.12	79.37
61	OAKLAND	43,056,834,294	39,060,501,498	70,296,996,641	55,986,490,872	79.64	63.27
11	OCEANA	639,084,126	546,120,771	1,237,084,425	810,470,018	65.51	93.57
43	OGEMAW	576,390,419	470,412,651	994,197,075	665,491,910	66.94	72.49
38	ONTONAGON	167,756,380	147,234,459	291,810,412	189,608,895	64.98	73.95
31	OSCEOLA	462,037,145	399,295,438	826,439,091	566,650,491	68.57	78.87
37	OSCODA	259,133,023	217,133,084	453,848,610	301,086,374	66.34	75.14
47	OTSEGO	860,368,916	773,206,521	1,461,185,482	1,083,027,404	74.12	69.83
64	OTTAWA	6,111,765,315	5,512,945,217	9,735,663,464	8,017,866,823	82.36	59.29
13	PRESQUE ISLE	415,522,606	368,082,983	790,671,375	507,033,510	64.13	90.28
28	ROSCOMMON	880,696,337	757,949,639	1,580,521,884	1,090,097,164	68.97	79.46
83	SAGINAW	3,930,917,534	3,672,366,453	5,378,529,278	4,621,922,499	85.93	36.83
66	SAINT CLAIR	4,463,415,448	4,066,477,838	7,055,937,140	5,571,093,474	78.96	58.08
79	SAINT JOSEPH	1,328,929,350	1,099,445,341	1,939,607,370	1,475,310,925	76.06	45.95
48	SANILAC	1,029,494,247	872,706,777	1,745,738,823	1,192,406,396	68.30	69.57
23	SCHOOLCRAFT	225,649,796	178,778,577	409,606,065	261,370,478	63.81	81.52
46	SHIAWASSEE	1,214,525,508	1,081,506,680	2,068,959,330	1,524,102,197	73.67	70.35
65	TUSCOLA	1,028,598,694	903,441,972	1,636,313,411	1,212,154,896	74.08	59.08
27	VAN BUREN	1,669,570,273	1,446,253,185	2,998,873,756	2,296,161,391	76.57	79.62
22	WASHTENAW	8,981,072,796	8,461,897,840	16,314,985,717	12,821,032,767	78.58	81.66
55	WAYNE	36,353,298,746	33,738,185,519	60,193,381,061	45,917,929,737	76.28	65.58
24	WEXFORD	609,772,710	541,038,033	1,102,250,725	796,007,291	72.22	80.76
	MICHIGAN	237,410,261,726	215,242,134,752	392,622,129,163	304,697,456,310	77.61	65.38

* Ranking based on SEV increase 1998-2004; "1" equals highest growth rate.

** Taxable value divided by SEV = percent

Source: MI Dept of Treasury Reports

Oct-04